

*Dorr Township - Leighton Township Waste Water Authority
Allegan County, Michigan*

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Years ended December 31, 2007 and 2006

CONTENTS

Page

INDEPENDENT AUDITORS' REPORT

3

BASIC FINANCIAL STATEMENTS

Statement of net assets

4

Statement of revenues, expenses, and changes in net assets

5

Statement of cash flows

6 - 7

Notes to financial statements

8 - 12

INDEPENDENT AUDITORS' REPORT

**Members of the Board
Dorr Township - Leighton Township
Waste Water Authority**

We have audited the accompanying basic financial statements of the Dorr Township - Leighton Township Waste Water Authority, as of December 31, 2007 and 2006, and for the years then ended, as listed in the contents. These financial statements are the responsibility of the Dorr Township - Leighton Township Waste Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dorr Township - Leighton Township Waste Water Authority at December 31, 2007 and 2006, and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Dorr Township - Leighton Township Waste Water Authority has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Siegfried Crandall P.C.

April 18, 2008



1958-2008

BASIC FINANCIAL STATEMENTS

Dorr Township - Leighton Township Waste Water Authority**STATEMENT OF NET ASSETS***December 31, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets:		
Cash	\$ 699,675	\$ 475,870
Investments	1,135,243	1,103,000
Receivables	<u>173,263</u>	<u>356,943</u>
Total current assets	<u>2,008,181</u>	<u>1,935,813</u>
Noncurrent assets:		
Receivables	617,142	730,216
Capital assets not being depreciated	49,385	49,385
Capital assets, net of accumulated depreciation	6,818,155	7,051,127
Unamortized bond issue costs	<u>164,609</u>	<u>180,356</u>
Total noncurrent assets	<u>7,649,291</u>	<u>8,011,084</u>
Total assets	<u>9,657,472</u>	<u>9,946,897</u>
LIABILITIES		
Current liabilities:		
Payables	50,750	59,099
Current portion of long-term obligations	<u>50,000</u>	<u>50,000</u>
Total current liabilities	100,750	109,099
Noncurrent liabilities - long-term obligations	<u>4,859,355</u>	<u>4,904,510</u>
Total liabilities	<u>4,960,105</u>	<u>5,013,609</u>
NET ASSETS		
Investment in capital assets, net of related debt	2,122,794	2,326,358
Unrestricted	<u>2,574,573</u>	<u>2,606,930</u>
Total net assets	<u>\$ 4,697,367</u>	<u>\$ 4,933,288</u>

See notes to financial statements

Dorr Township - Leighton Township Waste Water Authority
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Sewer usage charges	\$ 312,172	\$ 293,551
OPERATING EXPENSES		
Administrative wages and per diems	19,300	17,064
Payroll taxes	1,428	1,270
Maintenance and repairs	46,014	54,896
Professional fees	10,287	18,653
Contract services	121,658	118,450
Telephone	4,463	4,371
Insurance	6,496	7,423
Utilities	33,389	32,779
Miscellaneous	2,488	5,014
Depreciation	<u>232,972</u>	<u>222,169</u>
Total operating expenses	<u>478,495</u>	<u>482,089</u>
OPERATING LOSS	<u>(166,323)</u>	<u>(188,538)</u>
NONOPERATING REVENUES (EXPENSES)		
Hook-up fees	30,815	144,950
Interest revenue	123,437	127,342
Interest expense	<u>(223,850)</u>	<u>(225,640)</u>
Total nonoperating revenues	<u>(69,598)</u>	<u>46,652</u>
CHANGE IN NET ASSETS	(235,921)	(141,886)
NET ASSETS - BEGINNING	<u>4,933,288</u>	<u>5,075,174</u>
NET ASSETS - ENDING	<u>\$ 4,697,367</u>	<u>\$ 4,933,288</u>

See notes to financial statements

Dorr Township - Leighton Township Waste Water Authority**STATEMENT OF CASH FLOWS***Years ended December 31, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 295,475	\$ 296,871
Payments to suppliers	(234,301)	(240,628)
Payments to employees	<u>(19,300)</u>	<u>(16,857)</u>
Net cash provided by operating activities	<u>41,874</u>	<u>39,386</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Hook-up fees	80,107	83,009
Assessment collections	300,083	312,345
Interest on special assessments	42,720	62,168
Acquisition of capital assets	-	(291,041)
Interest paid on general obligation bonds	(203,529)	(205,091)
Principal paid on general obligation bonds	<u>(50,000)</u>	<u>(50,000)</u>
Net cash provided by (used in) capital and related financing activities	<u>169,381</u>	<u>(88,610)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of investments	240,000	1,037,297
Purchase of investments	(272,243)	(1,253,000)
Interest on investments	<u>44,793</u>	<u>52,363</u>
Net cash provided by (used in) investing activities	<u>12,550</u>	<u>(163,340)</u>
NET INCREASE (DECREASE) IN CASH	<u>223,805</u>	<u>(212,564)</u>
CASH - BEGINNING	<u>475,870</u>	<u>688,434</u>
CASH - ENDING	<u>\$ 699,675</u>	<u>\$ 475,870</u>

See notes to financial statements

Dorr Township - Leighton Township Waste Water Authority
STATEMENT OF CASH FLOWS (Continued)
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (166,323)	\$ (188,538)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	232,972	222,169
Decrease (increase) in accounts receivable	(16,697)	3,320
Increase (decrease) in accounts payable	<u>(8,078)</u>	<u>2,435</u>
Net cash provided by operating activities	<u>\$ 41,874</u>	<u>\$ 39,386</u>
Supplementary information:		
Acquisition of capital assets	\$ -	\$ (289,146)
Increase (decrease) in accounts payable	<u>-</u>	<u>(1,895)</u>
Cash used	<u>\$ -</u>	<u>\$ (291,041)</u>

See notes to financial statements

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Dorrr Township - Leighton Township Waste Water Authority, Michigan (the Authority), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

b) Basis of accounting:

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

c) Operating revenues and expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to customers for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets and liabilities:

i) Cash - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - All receivables are considered to be fully collectible.

iii) Capital assets - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are comprised of the Authority's sewer system and improvements, which are being depreciated using the straight-line method over a 40 year estimated useful life.

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - CASH:

	<u>2007</u>	<u>2006</u>
<i>Financial statements:</i>		
Cash	\$ 699,675	\$ 475,870
Investments	<u>1,135,243</u>	<u>1,103,000</u>
	<u>\$ 1,834,918</u>	<u>\$ 1,578,870</u>
<i>Notes to financial statements:</i>		
Deposits	<u>\$ 1,834,918</u>	<u>\$ 1,578,870</u>

Deposits with financial institutions - State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. As of December 31, 2007, \$1,239,228 of the Authority's bank balances of \$1,834,918 was exposed to custodial credit risk, because it was uninsured and uncollateralized. The Authority believes that it is impractical to insure all bank deposits. The Authority evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES:

Receivables for the Authority as of years ended December 31, 2007 and 2006, in the aggregate, are as follows:

	<u>Charges for services</u>	<u>Interest</u>	<u>Special assessments</u>	<u>Totals</u>
2007	\$ 30,739	\$ 63,166	\$ 696,500	\$ 790,405
2006	\$ 14,042	\$ 27,242	\$ 1,045,875	\$ 1,087,159
Noncurrent portion:				
2007	\$ -	\$ 5,611	\$ 611,531	\$ 617,142
2006	\$ -	\$ 16,641	\$ 713,575	\$ 730,216

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Authority for the years ended December 31, 2007 and 2006, was as follows:

	<i>Balance January 1, 2007</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance December 31, 2007</i>
Capital assets not being depreciated:				
Land	\$ 49,385	\$ -	\$ -	\$ 49,385
Capital assets being depreciated:				
Sewer system	9,319,056	-	-	9,319,056
Less accumulated depreciation for:				
Sewer system	(2,267,929)	(232,972)	-	(2,500,901)
Total capital assets being depreciated, net	<u>7,051,127</u>	<u>(232,972)</u>	<u>-</u>	<u>6,818,155</u>
Total capital assets, net	<u>\$ 7,100,512</u>	<u>\$ (232,972)</u>	<u>\$ -</u>	<u>\$ 6,867,540</u>
	<i>Balance January 1, 2006</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance December 31, 2006</i>
Capital assets not being depreciated:				
Land	\$ 49,385	\$ -	\$ -	\$ 49,385
Construction in progress	575,111	-	(575,111)	-
Total capital assets not being depreciated	<u>624,496</u>	<u>-</u>	<u>(575,111)</u>	<u>49,385</u>
Capital assets being depreciated:				
Sewer system	8,454,799	864,257	-	9,319,056
Less accumulated depreciation for:				
Sewer system	(2,045,760)	(222,169)	-	(2,267,929)
Total capital assets being depreciated, net	<u>6,409,039</u>	<u>642,088</u>	<u>-</u>	<u>7,051,127</u>
Total capital assets, net	<u>\$ 7,033,535</u>	<u>\$ 642,088</u>	<u>\$ (575,111)</u>	<u>\$ 7,100,512</u>

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - PAYABLES:

Payables for the Authority as of years ended December 31, 2007 and 2006, in the aggregate, are as follows:

<u>Operating fund</u>	<u>Accounts</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 17,004	\$ 33,746	\$ 50,750
2006	25,082	34,017	59,099

NOTE 6 - LONG-TERM LIABILITIES:

Long-term debt at December 31, 2007 and 2006, is comprised of the following individual issues:

	<u>2007</u>	<u>2006</u>
In 2005, the Authority refinanced its outstanding debt and financed improvements of its waste water system through the issuance of general obligation limited tax bonds in the amount of \$5,060,000. The bonds are due in annual installments ranging from \$50,000 to \$390,000 through May 2025, plus interest at 3.00 - 4.40% per annum, payable in semi-annual installments.	\$ 4,960,000	\$ 5,010,000
Unamortized premium	8,426	9,232
Amounts deferred on refinancing	<u>(59,071)</u>	<u>(64,722)</u>
Total long-term liabilities	<u>\$ 4,909,355</u>	<u>\$ 4,954,510</u>

The full faith, credit, and resources of the Township of Dorrr and the Township of Leighton have been pledged for the prompt payment of all debt requirements.

Long-term liability activity for the year ended December 31, 2007 and 2006, was as follows:

	<u>Balance December 31, 2006</u>	<u>Debt issued</u>	<u>Retirements</u>	<u>Balance December 31, 2007</u>	<u>Current portion</u>
2005 Refinancing bonds	\$ 5,010,000	\$ -	\$ (50,000)	\$ 4,960,000	\$ 50,000
Unamortized bond premium	9,232	-	(806)	8,426	-
Amounts deferred on refinancing	<u>(64,722)</u>	<u>-</u>	<u>5,651</u>	<u>(59,071)</u>	<u>-</u>
	<u>\$ 4,954,510</u>	<u>\$ -</u>	<u>\$ (45,155)</u>	<u>\$ 4,909,355</u>	<u>\$ 50,000</u>

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued):

	<i>Balance December 31, 2005</i>	<i>Debt issued</i>	<i>Retirements</i>	<i>Balance December 31, 2006</i>	<i>Current portion</i>
2005 Refinancing bonds	\$ 5,060,000	\$ -	\$ (50,000)	\$ 5,010,000	\$ 50,000
Unamortized bond premium	10,046	-	(814)	9,232	-
Amounts deferred on refinancing	(70,430)	-	5,708	(64,722)	-
	<u>\$ 4,999,616</u>	<u>\$ -</u>	<u>\$ (45,106)</u>	<u>\$ 4,954,510</u>	<u>\$ 50,000</u>

Debt service requirements at December 31, 2007, were as follows:

<i>Year ended December 31:</i>	<i>Principal</i>	<i>Interest</i>
2008	\$ 50,000	\$ 201,601
2009	50,000	199,726
2010	235,000	194,467
2011	245,000	185,614
2012	250,000	176,332
2013 - 2017	1,385,000	723,125
2018 - 2022	1,620,000	419,804
2023 - 2025	<u>1,125,000</u>	<u>49,793</u>
Totals	<u>\$ 4,960,000</u>	<u>\$ 2,150,462</u>

NOTE 7 - CLAIMS ARISING FROM RISKS OF LOSS:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

April 18, 2008

To the Board of Trustees
Dorr Township - Leighton Township Wastewater Authority

We have audited the financial statements of the Dorr Township - Leighton Township Wastewater Authority for the year ended December 31, 2007, and have issued our report thereon dated April 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 27, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Dorr Township - Leighton Township Wastewater Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Dorr Township - Leighton Township Wastewater Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

We noted no transactions entered into by Dorr Township - Leighton Township Wastewater Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.



1958-2008

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Authority's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the years ended December 31, 2007 and 2006.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Dorr Township - Leighton Township Wastewater Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Dorr Township - Leighton Township Wastewater Authority as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Dorr Township - Leighton Township Wastewater Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Authority does not have policies and procedures in place to allow for timely review and monitoring of the Authority's financial transactions by the Board of Trustees.

The Authority has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles and the presentation of financial statement disclosures. This is a recurring comment. The Authority has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

To the Board of Trustees
Page 4
April 18, 2008

This communication is intended solely for the information and use of the Board of Trustees of the Dorr Township - Leighton Township Wastewater Authority and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.